

BALTIMORE SUN

Baltimore vs. Norfolk: A tale of two ports

Virginia port hits rough patch as Baltimore makes gains

By Michael Dresser, The Baltimore Sun

November 12, 2011

It was just one headline among many of its kind in The Baltimore Sun during the 1980s and 1990s: "Baltimore loses round to Va."

The 1995 article noted that the shipping giant Maersk Lines was ending its service between South America and the port of Baltimore, shifting its ships to Norfolk, Baltimore's chief Mid-Atlantic rival. During those decades, the port of Baltimore lost a lot of rounds, and few months went by without an article about a business deserting the city for the dynamic powerhouse to the south.

But things have changed. The shipping business here is rebounding vigorously from the worldwide recession, thanks to a strategic decision to de-emphasize containerized cargo — an area in which the port was losing badly — and to go after other goods.

Billions of dollars' worth of coal, autos and other cargo will pass through Baltimore this year, and the port is preparing for the giant container ships that will begin using a widened Panama Canal in 2014. The city's cruise business is also growing steadily; the port announced this month that more than 212,000 passengers have boarded in 2011, which will be a third-straight record year.

Meanwhile, its Virginia rival has been going through a period of turmoil and self-doubt as its recovery has lagged. The industry bible, The Journal of Commerce, recently stuck Norfolk with the label of "underperforming" — a description Baltimore seemed to own during the 1990s.

In July, Virginia Gov. Bob McDonnell, unhappy with Norfolk's sluggish rebound, sacked all but one of the Virginia Port Authority board members. Concerned that Norfolk and the greater Hampton Roads region are losing ground to competitors in the lucrative container trade, he also recently ordered a re-examination of the port's administrative structure and strategic plan.

"A lot of this is the economy," said Virginia Port Authority spokesman Joe Harris. "It's been tough on us."

Baltimore is not Norfolk's chief rival. The two ports do not compete as directly as they did 20 years ago, when one port's loss — usually Baltimore's — was often the other's gain.

In a strategic shift in the late 1990s, Baltimore decided to de-emphasize containerized cargo to pursue autos, agricultural and construction machines, and niche cargoes, a strategy that has paid off handsomely over the past decades. And though Baltimore was once known as a hotbed of labor unrest, the last decade has seen more accord than conflict.

"We're doing good. Everybody's working together. People are not cutting each other's throats," said Helen Delich Bentley, the former congresswoman for whom the port is named and who

has tracked maritime commerce for about 60 years. "There's not much to complain about. It's as good as I've ever seen it."

That's good news for the Baltimore region's economy. The port accounts for 16,700 jobs and \$3.7 billion in annual wages, according to state statistics.

Still, the two ports compete for business. And that scramble could heat up when Baltimore joins Norfolk as the only East Coast ports — for at least two years — able to handle the giant container ships moving through the widened Panama Canal. (Before it can join the fray, New York must raise a bridge that is too low for the huge ships to pass under. It hopes to do so by 2016.)

Industry experts say there's nothing fundamentally wrong with the port of Norfolk. They say it has excellent facilities, as well as railroad connections that Baltimore and other ports can only envy. Its location is much closer to the open ocean than Baltimore, an especially attractive lure to time-conscious container ship operators. Norfolk still handles more than three times as many containers as Baltimore.

Nevertheless, a combination of economic factors, including competition on many fronts and weaknesses in industries it serves, has left the Virginia port in a mini-funk.

When McDonnell sacked most of the Virginia Port Authority board, state Transportation Secretary Sean Connaughton told reporters the governor was not happy with production at the agency. In part, the decision may have been influenced by politics — McDonnell is a Republican and the board was made up of appointees of his Democratic predecessors — but Connaughton also pointed to the port's performance.

"We're the only port on the East Coast that has not recovered to pre-recession levels," Connaughton told The Virginian-Pilot newspaper in July.

Over the first six months of this year, the value of the cargo crossing the docks in Norfolk rose 18 percent from the year before, to \$13.8 billion. But during that same period, the port of Baltimore handled \$11.2 billion in cargo — almost a 40 percent increase from the first half of 2010. Norfolk slipped one spot in the ranking of U.S. ports, to seventh, while Baltimore improved to ninth, the state said.

In September, McDonnell asked the reconstituted board for a top-to-bottom review of the port's management and structure to find what's gone wrong. And last month, the new VPA board launched a performance review of the port's executive director, Jerry A. Bridges, who received a new six-year contract in January after serving since 2006.

The moves raise the possibility that the port of Norfolk could be in for a period of management flux — a stage Baltimore went through in the 1990s, when the Maryland Port Administration had a virtual revolving door for chief executives.

Since 1999, the Baltimore port's top post has been relatively stable, with James J. White holding the position for 10 of the past 12 years.

"In the past two years we've made back just about everything we lost during the Great Recession," White said.

This month, the port of Baltimore reported it had set a third-straight consecutive record in cruise passengers — another niche in which the city has been advancing in national rankings. Norfolk, with a much smaller regional market to draw from, has seen its cruise business dip since Royal Caribbean left last year.

A populous regional market — taking in Washington, Pittsburgh and Cleveland as well as Baltimore — is a key to Baltimore's recent success in cargo, said John Martin, chief executive to the maritime consultant Martin & Associates.

Norfolk's regional market is much smaller, so it relies much more on "discretionary" cargoes, and shippers trying to reach the interior of the country have their choice of ports, he said.

"The problem with Virginia is their competitive market is the competitive market of everybody else," said Martin, naming Savannah, Ga.; Jacksonville, Fla.; Miami; Houston; and Mobile, Ala., as possible alternate gateways for shippers looking for the best deal.

Walter Kemmsies, chief economist for Moffatt & Nichol, a global infrastructure consultant in New York, said Norfolk's main problem isn't an inability to compete with other ports but a downturn in some of the sectors in which it was strongest.

He said Norfolk was very strong in importing containerized goods for big-box stores, particularly those selling home furnishings. But that sector was hard hit by the housing slump and is importing fewer goods. Meanwhile, Baltimore has been strong in exports, which have flourished.

"If you're geared toward imports, it's a little worse than if you're geared toward exports," Kemmsies said.

Another Baltimore strength, Martin said, is the range of cargoes it specializes in: autos and other roll-on-roll-off ("ro-ro") equipment, primarily for construction and agriculture; forest products; gypsum; and coal.

White said that's no accident. When he became director, "we said to ourselves we as a port need to be a lot more diversified," he said.

That strategic shift left the port far less dependent on containers than it had been in previous decades.

For the first six months of 2011, Baltimore ranked No.1 in the United States in handling cars. It also leads the nation in ro-ro cargo, imported wood and paper products, and several other categories.

Norfolk continues to dominate the Mid-Atlantic in containers, handling 25 percent of the East Coast market, compared with 6.5 percent for Baltimore. (New York leads, with about 50 percent of the container market.)

But White said the port of Baltimore is holding its own in containerized cargo and is poised to make gains after long-term partner Ports America Chesapeake opens a new pier at Seagirt Marine Terminal next year. That pier, with a berth dredged to 50 feet deep and long-reaching

cranes, will be capable of loading and unloading the super-sized container ships using a widened Panama Canal.

Norfolk will still have the advantage of proximity to the open ocean, but Baltimore port officials hope to close the gap between the two ports in rail connections by then.

White said Baltimore's appeal is limited because the Howard Street railroad tunnel doesn't allow double-stacking of containers — as the rail lines into Norfolk do. But he's hoping that a new "intermodal center" along the CSX Camden Line — where trucks will shuttle containers to a railhead, allowing them to avoid the tunnel — will change the competitive balance.

Harris, the Virginia port spokesman, said Norfolk has been hampered recently by several events beyond its control, including a Chinese ban on the import of some American logs and a shift by Midwestern farmers away from the use of containers to export grain.

The recent slump isn't a sign of systemic problems, Harris said. A recent expansion of CSX service to the Midwest bodes well for Norfolk's future, he said. And Virginia port officials, like those in Maryland, expect big gains after the Panama Canal is widened.

Whatever moves Norfolk makes to regain its old swagger, Baltimore's port no longer seems intimidated by its southern rival.

"We are no longer considered a backwater port," Bentley said. "We are considered in the top echelon."

Foreign Waterborne Commerce (in billions)

2010: \$41.5

2009: \$30.2

2008: \$45.3

2007: \$41.9

2006: \$36.7

Automobiles and trucks (in thousands of short tons)

2010: 1,005

2009: 722

2008: 1,063

2007: 1,174

2006: 973

Source: Maryland Port Administration